

Message Text

UNCLASSIFIED

PAGE 01 USUN N 01114 040059Z

11

ACTION IO-14

INFO OCT-01 ISO-00 AF-10 ARA-16 EA-11 EUR-25 NEA-10 RSC-01

OMB-01 TRSE-00 ABF-01 PA-04 PRS-01 USIA-15 CIAE-00

INR-10 NSAE-00 L-03 DRC-01 /124 W

----- 074691

R 040012Z APR 74

FM USMISSION USUN NY

TO SECSTATE WASHDC 3346

INFO USMISSION GENEVA

UNCLAS USUN 1114

EO 11652: NA

TAGS: EFIN, AORG, UN

SUBJ: UN FINANCES - WORKING GROUP ON CURRENCY

INSTABILITY

REF: USUN 1090

SUMMARY: WORKING GROUP REVIEWED OPERATIONS OF FORWARD EXCHANGE TRANSACTIONS. LARGELY NEGATIVE PRESENTATION WAS GIVEN BY SECRETARIAT REP ZIEHL WHILE WORKING GROUP DEBATE FAILED TO ELICIT CLEAR-CUT VIEWPOINT. AT CONCLUSION OF MEETING ZIEHL SUMMARIZED PROGRESS OF WG TO DATE AND IT WAS AGREED THAT WG AT BEGINNING OF ITS NEXT SESSION WOULD COMPLETE REVIEW OF QTE CURRENCY MIX UNQUOTE AND WILL THEN CONCENTRATE ON SEVERAL SUGGESTIONS WHICH APPEAR FEASIBLE. END SUMMARY

1. SECRETARIAT REP ZIEHL OFFERED LONG PRESENTATION ON FORWARD EXCHANGE TRANSACTION. IN LARGELY NEGATIVE TONE, HE ARGUED THAT UN SHOULD NOT SPECULATE AGAINST CURRENCIES OF MEMBER STATES. FORWARD MARKET OPERATIONS BOUGHT ONLY ONE-WAY PROTECTION, HE SAID. WITHIN UN SYSTEM SO FAR SUCH TRANSTIONS HAD NOT GAINED FAVOR AND HE THOUGHT THAT ECONOMISTS IN GENERAL DISAPPROVED OF SUCH TYPES OF ACTIVITIES BY INTERNATIONAL ORGANIZATIONS.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 USUN N 01114 040059Z

2. COMMENTS ON FORWARD MARKET OPERATIONS WERE OFFERED

BY CUBA, UNITED STATES, *4-,:3, FRG, AND KENYA REPS.

7 430 (KELLER) ATTEMPTED TO ANSWER SOME OF ASSUMPTIONS MADE BY ZIEHL. HE SPECIFIED THAT SUCH OPERATIONS SHOULD PROBABLY BEST BE LIMITED TO FOREIGN EXCHANGE FROM DEVELOPED AND STABLE ECONOMIES (ZIEHL HAD OFFERED EXAMPLE OF MARKET OPERATIONS IN CHILE). KELLER OFFERED DESCRIPTION OF A FORWARD EXCHANGE OPERATIONS AND ATTEMPTED TO JUSTIFY VALIDITY OF SUCH TRANSACTIONS IN LIGHT OF NEED TO STABILIZE BUDGET ESTIMATES. HE ALSO STATED THAT WHO APPARENTLY HAD EMPLOYED FORWARD CURRENCY OPERATIONS SINCE LATE 1971 WITH SOME SUCCESS. KELLER ADDED THAT WHO OPERATIONS WERE VERY LIMITED IN THAT LENGTH OF CONTRACTS WERE GENERALLY OF THREE WEEKS OR LESS. IN REPLY, ZIEHL SAID THAT HE WOULD ASK WHO FOR FURTHER INFORMATION WHICH HE WOULD MAKE AVAILABLE TO WORKING GROUP.

3. FRENCH DEL (DERRE) SAID THAT WHILE US OFFERED THEORY, SECRETARIAT SPOKE OF PRACTICAL PROBLEMS OF FORWARD MARKET TRANSACTIONS.

4. THE FRG REP (SCHMIDT) EXPRESSED CONCERN THAT UNEVEN INFLOW OF FUNDS TO UN MIGHT PREVENT UN FROM MEETING ITS FORWARD CONTRACT OBLIGATIONS, SUCH OPERATIONS SHOULD BE LIMITED AND NOT REGULAR COURSE OF ACTION.

5. THE KENYAN REP (MWANGI) INDICATED SOME SUPPORT FOR FORWARD MARKET OPERATIONS AS A MANNER OF SPREADING RISK.

6. US (KELLER) INDICATED THAT STRICTLY SPOT OPERATIONS WERE A TYPE OF SPECULATION, BECAUSE PURCHASERS WERE SPECULATING THAT SPOT RATES WOULD BE BETTER THAN FORWARD RATES. HE ALSO INDICATED THAT NOT ALL FUNDS OF UN NEED BE INVESTED IN FORWARD CONTRACTS, IMPLYING THAT SCHMIDT'S CONCERNS WERE EXAGGERATED, AND THAT FORWARD MARKET PURCHASES SHOULD ONLY BE CONSIDERED AS ONE TOOL WHICH COULD BE USED IN TRYING TO MAINTAIN THE STABILITY OF UN EXPENDITURES.

7. USSR REP (PALAMARCHUK), SUPPORTED SOMEWHAT BY CHIRMAN JAIN, REQUESTED THAT SECRETARIAT AND DELS PREPARE WORKING PAPERS ON PROS AND CONS OF FORWARD EXCHANGE OPERATION. FOLLOWING REVIEW BY ZIEHL OF PAST DISCUSSIONS IN WG, CHIRMAN ANNOUNCED UNCLASSIFIED

UNCLASSIFIED

PAGE 03 USUN N 01114 040059Z

THAT "CURRENCY MIX" WOULD BE TAKEN UP AT START OF NEXT SESSION. FOR THIS, WG WOULD CONCENTRATE ON SEVERAL SUGGESTIONS WHICH SEEMED TO HAVE GREATER PROMISE.

8. COMMENT: WE BELIEVE THAT STATEMENTS OF SEVERAL DELS REFLECT BASIC LACK OF UNDERSTANDING OF FORWARD EXCHANGE OPERATIONS, AND IN PARTICULAR DIFFERENCE BETWEEN FLOATING AND PEGGED EXCHANGE RATE SYSTEM. PRIOR TO NEXT MTG, IT WOULD BE MOST USEFUL FOR US

TO DRAFT A BRIEF PAPER ON FORWARD EXCHANGE OPERATIONS FOR
CIRCULATION TO WG MEMBERS. HOPEFULLY, NICK RIEGG, WHO
HAS PROVIDED VALUABLE ASSISTANCE TO US
DEL, CAN PREPARE SUCH A DRAFT FOR OUR USE.
SCALI

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCIAL CRISIS, COMMITTEE MEETINGS, CURRENCY STABILITY
Control Number: n/a
Copy: SINGLE
Draft Date: 04 APR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974USUNN01114
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740075-0709
From: USUN NEW YORK
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740466/aaaacisi.tel
Line Count: 120
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION IO
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: USUN 1090
Review Action: RELEASED, APPROVED
Review Authority: shawdg
Review Comment: n/a
Review Content Flags:
Review Date: 22 MAY 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 MAY 2002 by bryansd0>; APPROVED <17 DEC 2002 by shawdg>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: UN FINANCES - WORKING GROUP ON CURRENCY INSTABILITY
TAGS: EFIN, AORG, UN
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005